Langton Capital Limited

15 March 2013

Leisure:JD Wetherspoon (JDW): 510p
H1 Results: 26w to 27 January 2013

JD Wetherspoon has this morning reported H1 numbers for the 26w to 27 January 2013 and our comments and further details are set out below:

- JD Wetherspoon has this morning reported H1 numbers for the 26w to 27 January saying that LfL sales rose by 6.9% and that total revenue was up 10% at £626.4m
- LfL sales were up 7.1% in Q1 and 8.0% in the 11w to 13 Jan suggesting that the snow at the end of January (unsurprisingly) took the shine off these impressive numbers
- LfL sales in the six week to 10 March are up by 7.3% suggesting that JDW is continuing to favour sales over margin
- Operating profit was £52.1m (2011: £53.1m) and profit before tax and exceptional items was £34.8m against £35.8m in the prior year
- Operating margins have therefore slipped from 9.3% last year to 8.3% in the 26 weeks under review
- Aided by share buy backs, EPS has risen to 20.8p (2011: 20.2p) and the interim dividend is being proposed at 4p, unchanged on last year
- Recent LfL sales trends are shown below:

Financial period	LfL sales %
Full year 2008/09	+1.2
Q1 2009/10	+0.3
H1 2009/10	+0.1
Q3 2009/10	Minus 0.8
Full year 2009/10	+0.1
Q1 2010/11	+1.6
Q2	+3.1
Q3	+2.4
FY 2010/11	+2.1
Q1 2011/12	+1.1
Q2 (first 12w of)	+3.6
H1 2011/12	+2.1
Q3	+2.0
FY 2011/12	+3.2
Q1 2012/13	+7.1
Q2 2012/13 (11w to 13 Jan 13)	+8.0
H1 (26w to 27 Jan)	+6.9
6w to 10 March 2013	+7.3

Source: JD Wetherspoon

- JDW opened five new pubs during the period and expects to open 30 or so in the full year
- Bank debt stood at £469.9m (last year £462.6m) with the group's debt/EBITDA ratio therefore standing at 2.99x
- The group says 'the outcome for the first half of the financial year was reasonable, given the pressures on the UK consumer'

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- It goes on to criticise the tax regime, both the VAT disparity between supermarkets and pubs (on food, at least) and the ‘continuing imposition of stealth taxes, such as the late night levy’
- Nonetheless, ‘the company continues to aim for a reasonable outcome in the current financial year’

Lancap view: JD Wetherspoon updated on Q2 trading on 15 January, at which time it highlighted the facts that LfL sales were sharply higher but that margins were under pressure. This (interrupted somewhat by the snow in January) has continued with an impressive 7.3% increase in LfL sales registered for the last six weeks.

Market estimates of around 41.5p for the current year suggest that JDW’s shares are trading on a relatively undemanding 12.3x this year’s earnings. The group may not quite have the asset-backing of peers Marston’s, Greene King, M&B and others but, on the other hand, it is well-placed to continue to prosper in an environment where consumer spending remains tight.

The group may be doing the right thing (on a five year view, say) by holding down prices and driving sales. It is increasing barriers to entry and cementing its footprint but, over the shorter term, profits may suffer. Should the group’s shares weaken, then underweight holders may wish to increase their exposure to what remains a very good company.

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